



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 3/09/2007

**GAIN Report Number:** MX7016

## Mexico

### Agricultural Situation

## Mexico Announces 2007 Agricultural Programs 2007

**Approved by:**

Suzanne Heinen

U.S. Embassy Mexico City

**Prepared by:**

Jeff Nawn & Gabriel Hernandez

---

**Report Highlights:**

The Calderon administration recently rolled out their agricultural and rural development policies and initiatives in a five-day media barrage, dubbed "Countryside Week". The President announced the continuation of several agricultural support programs, including PROCAMPO, as well as the creation of several new programs, such as a forestry initiative that aims to revitalize Mexico's ailing forestry sector. The cornerstone of "Countryside Week" was the announcement regarding programs and funding levels under the 2007 Concurrent Special Program (PEC). The PEC, which will be coordinated by the Intersecretarial Commission for Sustainable Development, will receive \$176 billion pesos in funding in 2007 (U.S. \$16.3 billion).

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Mexico [MX1]  
[MX]

## OVERVIEW

After several months of anticipation, the Calderon administration rolled out their agricultural and rural development policies and initiatives in a five-day media barrage, dubbed "Countryside Week". During the week the President announced the continuation of several agricultural support programs, including PROCAMPO, as well as the creation of several new programs, including a forestry initiative that aims to revitalize Mexico's ailing forestry sector. These announcements, which come less than 100 days after President Calderon assumed office, were met with mixed reviews by the agricultural sector. Though many producers were pleased that current support programs would remain in place, largely unchanged, many farmer organizations expressed dismay that the administration had not consulted with the agricultural community when formulating their policies, and Congress noted that they had increased the budget over the Administration's proposed budget.

The cornerstone of "Countryside Week" was the announcement regarding the renewal and proposed funding for the Concurrent Special Program<sup>1</sup> (PEC). In accordance with Mexican law, the PEC can be reauthorized through 2012, though exact funding levels are to be renegotiated and voted upon every year by Congress. This year the PEC will receive \$176 billion pesos (U.S. \$16.3 billion) from the federal government. This is significant in that 2007 PEC funding is 15 percent greater than 2006, and 85 percent greater than the funding first allocated to the PEC in 2000. The allocation of these funds will be administered under the auspices of the Intersecretarial Commission for Sustainable Development. Funding will be distributed among a diverse set of programs, run by different Government of Mexico (GOM) Secretariats, all aimed at improving rural livelihoods and agricultural productivity and competitiveness. The 2007 PEC budget proposal is the largest allocation of federal funds for rural development in the history of the Republic.

In addition to the PEC, the government also announced the "GOM Actions to Promote the Corn, Dry Beans, Sugar Cane and Milk Competitiveness for the 2007-2012 period." This announcement is not a funded program, but rather an effort to underscore the work that is currently being done, or in the planning stages, within the government to smooth the transition to an open North American market for the few remaining agricultural products under protective tariff and quota regimes.

The following is a synopsis of the programs, initiatives, and goals, which were announced during "Countryside Week". It should be noted that these announcements were rather vague in nature, as the funding levels for specific activities within each program have not yet been fully determined. The specifics of these programs will not be fully articulated until they are published in the Mexican Federal Register ("*Diario Oficial*"). What is most significant about the announcements made during "Countryside Week" is that that GOM is focusing on the competitiveness of the agricultural sector with renewed vigor. This increased level of attention is partially due to the impending full implementation of NAFTA, as well as a response to political pressure from agricultural, political, and civic organizations.

## CONCURRENT SPECIAL PROGRAM (PEC)

The Concurrent Special Program is an umbrella funding mechanism for all GOM activities aimed at increasing agricultural production, stimulating rural economies, and improving rural livelihoods. With this program the President will effectively re-authorize the Intersecretarial

---

<sup>1</sup> The original *Programa Especial Concurrente* (PEC) was implemented during the President Fox Administration and was implemented from 2000 to 2006. PEC provisions are established in Article 14 of the Sustained Rural Development Law, published in Mexico's Federal Register ("*Diario Oficial*") on December 7, 2001. Under the Development National Plan framework the PEC incorporates the public policies targeting the promotion and diversification of jobs related to the poorest rural population guaranteeing their well-being and participation into the national development.

Commission for Sustainable Development to work under the National Development Plan (PND) framework to implement the PEC. According to the GOM, PEC funds reach more than 90 percent of the municipalities in Mexico, and directly benefit one out of four Mexicans. PEC funding is distributed through a large number of government programs with a diverse set of objectives. The following is an outline of the major programs aimed at the agricultural sector.

[Direct Support to the Countryside Program \(PROCAMPO\)](#)<sup>2</sup> - PROCAMPO is a system of direct payments to producers based on a historic levels of area planted. This program is primarily aimed at producers of basic grains and oilseeds (corn, dry beans, wheat, rice, sorghum, soybeans, safflower, cotton and barley).

The PROCAMPO program, initiated in 1994, was to have expired in 2008. However, the Calderon administration decided to renew the program, a great relief to the 2.8 million farmers that are registered in the program who were concerned that it would be discontinued. The administration announced PROCAMPO funding levels at \$16 billion pesos in 2007, a 7 percent increase over 2006 levels. Furthermore, the administration also pledged to allocate \$50 billion pesos to PROCAMPO over the next two and one half years.

[Emergency Plan](#) - The Emergency Plan offers financial support, through a number of mechanisms, for producers of corn, beans, sugar cane, milk and other sensitive agricultural products. This plan was designed in direct response to the impending opening of the North American market. This plan will be granted funding of \$12 billion pesos in 2007.

[Highway Infrastructure](#) - PEC funds will be allocated for the enlargement and improvement of roads and highways to facilitate the transport of agricultural products and reduce operational costs. PEC funds will also allow for the implementation of the "Rural Roads" program, which is designed to assist rural agricultural producers in accessing large urban domestic markets and international ports.

[Agricultural and Livestock Census](#) - The GOM will fund a comprehensive census of rural Mexico in order to determine the labor and production capacity of the country. Data derived from this census will be used in the elaboration of agricultural and rural development policies. Roughly \$1.6 billion pesos are proposed for this activity.

[Strengthening of the Land Fund](#) - The Calderon administration will create a fund for the enforcement of property rights, as well as investment in the countryside. Monies for the acquisition of diesel at preferential rates, in compliance with the Federal Energy Law, are also included under this program area.

---

<sup>2</sup> The Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA) initiated PROCAMPO in October 1993 to facilitate the transition to more market oriented policies from the previous scheme of guaranteed prices. It provides direct cash payments at planting season on a per hectare basis to growers. These payments remained constant in real terms until the Fall/winter 2005/06 planting cycle when it started to decrease in linear terms until the 2007/08 spring/summer cycle.

[Pro-Trees](#) - The President also announced the creation of a new initiative under the PEC called the Pro-Arbol, or, Pro-Tree Program. This program will promote the transformation of the forestry sector into an efficient and profitable part of the agricultural economy. The GOM will invest over \$6 billion pesos in the 2007 Pro-tree Program. These funds will be directed towards the poorest regions of the country and will partially support a population of nearly 400,000 inhabitants. The main objective of this program is the recuperation of unproductive areas and the development of aquifers. The program focuses on four areas; conservation and restoration, planning and forest organization, production and productivity, and infrastructure development.

[Fisheries Development](#) - President Calderon also announced the creation of a new fisheries program. Because of a lack of government support, inappropriate regulations, and obsolete infrastructure, the country's fishing industry has been in a state of decline for many years. In order to reverse this trend, the GOM, through PEC, will allocate \$1.3 billion pesos towards the revitalization of the sector. The key areas to be funded under this initiative are: the provision of credit and banking services; improving the competitiveness and efficiency of the fisheries sector; promotion of investment in infrastructure; and the strengthening and enforcement of the regulatory framework for the fishery sector.

### **2007-2012 ACTION PLAN TO INCREASE COMPETITIVENESS**

In addition to the PEC, which was publicized in the first half of the week, the government also announced the "GOM Actions to Promote Corn, Dry Beans, Sugar Cane, and Milk Competitiveness for the 2007-2012 Period." As stated earlier, this announcement is not a funded program, and these activities are not new activities. These activities are already implemented under an array of government programs, such as PROCAMPO, or other PEC funded programs. In fact, these programs consume only slightly more than 10 percent of the entire PEC budget. The purpose in this announcement was to highlight the government supports that are directed towards sensitive agricultural commodities, and to articulate the government's goals for those sectors during the Calderon administration.

In this respect, this announcement is rather constructive in that it defines the government's objectives and goals for four major commodities; corn, dry beans, sugar, and milk. It also identifies the programs, and their respective funding levels, that are being used to realize those goals. The funding level associated with these activities totals \$18.1 billion pesos, the vast majority of which is PEC money. Of this amount, \$4.7 billion pesos will be directed towards activities that stimulate and support investment, \$11.2 billion pesos will be spent on direct support programs, and \$2.2 billion pesos will be allocated for other support activities.

The goals, and associated activities, for the few remaining agricultural commodities under protective NAFTA tariff and quota regimes are as follows:

#### **Corn**

The GOM identifies two goals for the domestic corn industry, with the intention of supporting the activities of the country's 1.9 million corn farmers. The identified goals are to:

1. Increase national production to 26-30 MMT, from the current average of 21 MMT; and
2. Increase average yields to 3.5-5.0 tons/hectare from the current average of 2.8 tons/hectare.

To put these numbers into some perspective, average annual consumption of corn in Mexico is roughly 31 MMT. Thus, if the government's goals were realized within President Calderon's term, and assuming no growth in consumption, Mexico would, for all intents and purposes, be very close to being self sufficient in corn by 2012. However, given the country's ethanol

production plans and a growing livestock and poultry industry, consumption is expected to continue to rise.

A number of activities, with budget allocations totaling \$12 billion pesos, are identified as being conducted for the purpose of achieving these goals. These activities are delineated into four strategic areas:

- *Strengthening and organizing the different institutions and agents involved in the production of corn* - \$31 million pesos. Specifically this includes funding for; strengthening of farmer organizations, increasing the use of irrigation, increased use of soil and climatic data for planting decisions, and marketing studies;
- *Increasing productivity, in a sustainable manner, and support for the competitive supply of inputs and services* - \$2.576 billion pesos. Specifically this includes funding for the provision of more productive inputs, technical assistance programs, incentives for yellow corn production, diesel fuel subsidies, electric energy subsidies, and seed research;
- *Creation of a safety net for productive activities* - \$9.556 billion pesos. This includes funding for investments in infrastructure, PROCAMPO payments, agriculture-by-contract projects, storage subsidies, creation of strategic corn reserves, and experimental transgenic corn trials;
- *Provision of credit and risk mitigation mechanisms, as well as the promotion of other financial tools* - \$50 million pesos. This includes funding for rural finance institutions and the development of financial products for rural agricultural producers.

#### Dry Beans

The government identifies two goals for the Mexican bean industry, with the intention of supporting the activities of the country's 300,000 bean farmers. The identified goals are to:

1. Increase average national yields to .8-1.0 tons/hectare on dry land, and 2—2.5 tons/hectare on irrigated land, from their current average levels of .57 tons/hectare and 1.67 tons/hectare, respectively.
2. Increase national bean consumption to 13-14 kg/per capita, from the current levels of 11.9 kg/per capita.

These goals, if realized, would increase bean production by 52 percent, and consumption by only 13 percent. Thus, the outcome of this initiative may be a rather significant surplus of beans. Reversing the downward bean consumption may prove more difficult than increasing yields, as prices are rarely cited as a binding constraint for bean consumption.

A number of activities, with budget allocations totaling \$3.9 billion pesos, are identified as being conducted for the purpose of achieving these goals. These activities are delineated into four strategic areas:

- *Strengthening and organizing the different institutions and agents involved in the production of beans* - \$19.5 million pesos. Amongst other initiatives, this would include grants for investments in production, technical cooperation programs with the U.S. and Canada, market surveys, and irrigation projects;
- *Increasing productivity, in a sustainable manner, and support for the competitive supply of inputs and services* - \$1.8 million pesos. This includes funds for; input certifications schemes, land conversion schemes, technical training, projects for the development of value added products in the bean sector, and equipment modernization, and diesel and electricity subsidies;

- *Creation of a safety net for productive activities* - \$2 billion pesos. The funds will primarily be spent on PROCAMPO supports and subsidies for storage and warehousing;
- *Provision of credit and risk mitigation mechanisms, as well as the promotion of other financial tools* - \$20 million. This includes funding for rural finance institutions and developing financial products for rural agricultural producers.

### Sugar Cane

The GOM identifies two goals for the Mexican sugar cane industry, with the intention of supporting the activities of the country's 160,000 sugar cane workers. The identified goals are to:

1. Increase national production of sugar to 6.0-6.3 MMT, from the current average of 5.2 MMT; and
2. Increase average yields to 80 tons/hectare from the current average of 73.9 tons/hectare.

Domestic demand for sugar is roughly 5.6 MMT annually. All things being equal, if production were to increase by the stated amount, Mexico would not only be able to easily supply its domestic market, but would have surplus sugar available for export.

A number of activities, with budget allocations totaling \$998 million pesos, are identified as being conducted for the purpose of achieving these goals. These activities are delineated into two strategic areas:

- *Strengthening and organizing the different institutions and agents involved in the production of sugar cane* - \$258 million pesos. This includes an industry modernization plan, marketing and land studies, and production optimization studies;
- *Increasing productivity, in a sustainable manner, and support for the competitive supply of inputs and services* - \$740 million. This includes funds for investments in irrigation and other production modernization systems, electricity and diesel subsidies, technical transfer projects, and genome studies.

### Milk

The government identifies two goals for the Mexican dairy industry, with the intention of supporting the activities of the country's 600,000 dairy producers. The identified goals are to:

1. Increase national production to 11.9 billion liters, from the current average of 9.9 billion liters; and
2. Increase national average yields to 1.8 tons/head/year, from the current average of 1.45 tons/head/year.

The impact that a roughly 20 percent increase in production would have on the market is somewhat difficult to determine. All things being equal, such a surge in production would dampen Mexico's demand for imported dairy products, though the country would still be a net importer.

A number of activities, with budget allocations totaling \$920 million pesos, are identified as being conducted for the purpose of achieving these goals. These activities are delineated into four strategic areas:

- *Strengthening and organizing the different institutions and agents involved in the production of milk* - \$6.5 million pesos;

- *Increasing productivity, in a sustainable manner, and support for the competitive supply of inputs and services* - \$719 million pesos. This includes funding for infrastructure inputs that increase competitiveness, and sanitary programs for the reduction of risk of animal health diseases;
- *Creation of a safety net for productive activities* - \$145 million pesos. This would include production-by-contract schemes and market regulations supports;
- Provision of credit and risk mitigation mechanisms, as well as the promotion of other financial tools - \$50 million pesos.